Comments to the Renewables Committee of the California Energy Commission

In the Matter of:
Implementation of Renewables Portfolio Standard Legislation
SB 1078 (Ch. 516, Statutes of 2002) and SB 1038 (Ch. 515, Statutes of 2002)

Docket No. 03-RPS-1078
RPS Proceeding

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The Center for Energy Efficiency and Renewable Technologies (CEERT) offers these comments today in regard to Phase II of the California Energy Commission's implementation of renewables portfolio standard (RPS) legislation, SB 1078 and SB 1038. These comments primarily offer recommendations as to the use of renewable energy credits (RECs) as an accounting, verification and flexible compliance mechanism for meeting RPS targets. Much of the contents of these comments are also reflected in briefs and testimony filed by CEERT in the California Public Utilities Commission's RPS proceeding, Rulemaking (R.) 01-10-024.

Renewable Energy Credits

SB 1078 requires the Energy Commission to:

> Public Utilities Code Section 399.13 (b): Design and implement an accounting system to verify compliance with the renewables portfolio standard by retail sellers, to ensure that renewable energy output is counted only once for the purpose of meeting the renewables portfolio standard of this state or any other state, and for verifying retail product claims in this state or any other state.

To achieve this mandate, CEERT recommends that the Energy Commission institute a RECs system. This topic has already had some discussion in the CPUC's RPS proceeding, R.01-10-024. Testimony provided at the CPUC in this proceeding has revealed the use of RECs in implementation of the RPS program is a point of agreement among consumer, utility, environmental and industry interests.[1]

A REC is produced when one unit of renewable energy is generated and is representative of the environmental and renewable attributes of that renewable energy resource. A REC is a separate entity from the energy that accompanies it, and must be treated as such in transactions. The function of a REC system is several fold: 1) to track renewables purchases, 2) to verify compliance with the RPS mandate, 3) to serve as a flexible compliance mechanism for power sellers that are, for whatever reason, unable to sign long-term renewables contracts, and 4) to ensure that credit for each renewables purchase is only counted once.

The primary function of a REC-based system will be to fulfill the statutory requirement for an accounting system to ensure compliance with the RPS program and avoid of the problem of double-counting credit for renewables purchases. RECs would be used to confirm the generation and transfer of renewable attributes, and their retirement after being transferred from generator to purchaser only once. This is also important from both a compliance and environmental standpoint, as it would ensure that environmental benefits of renewable generation are not counted by multiple power sellers to meet their RPS targets.

RECs also have an important role to play in flexible compliance, particularly for such entities as electricity service providers (ESPs), who have claimed thus far to be unable to sign contracts with renewable generators of the length required by SB 1078. Power generators or power sellers with excess RECs have the option of selling these credits to other sellers that need an additional push toward meeting their renewable purchase requirements under the RPS.

<u>REC System Design</u>

CEERT recommends that California's system be designed to ensure the following: 1) that a REC is only created when one unit of renewable energy is generated, 2) a REC is retired once it is used once to meet the obligations of the RPS, and 3) a REC is treated in the first instance as a property right of the generator, to be expressly identified and transferred via contract. On this latter point, CEERT believes strongly that RECs are first a property right of any

[1] Testimony filed on behalf of the following entities in R.01-10-024 were supportive of a RECs based system: SDG&E (Bartolomucci) (Ex. RPS-21, at pp. 1-4); TURN (Marcus) (Ex. RPS-22, at pp. 39-44); CEERT (Roberts/MacLeod) (Ex. RPS-1, at pp. I-1 p I-17); California Wind Energy Association (CalWEA)(Rader) Ex. RPS-12, at Chapter 3, pp. 1-2.

renewable generator whose output is counted towards RPS targets, including customer-generators with renewable distributed generation units.

An additional benefit of instituting a REC-based system is that California does not have to start from scratch in designing such a system, as there are already a number of successful REC systems in place nationwide. RECs have proven thus far to be a simple and cost effective mechanism for tracking compliance in Texas' and New England's RPS programs.

At the May 13th workshop on RPS implementation, there was much momentum from a variety of interests around the concept of developing a holistic tracking system that would incorporate RECs, emissions reductions credits, nonrenewable resources, and other relevant information, to monitor progress toward state and Western regional targets. CEERT, too, believes that such a system should be the ultimate goal of the Energy Commission, though an interim system involving only RECs should be developed now, as renewable contracts are already being signed under the RPS mandate without any system currently in place to track these purchases.

Other Issues

In light of some confusion that has come about with regard to the eligibility of out-of-state renewable resources to compete under the RPS, CEERT suggests that the RPS legislation be cleaned up to clarify this issue.